

International Tax Dialogue - ITD

GLOBAL CONFERENCE

TAXATION OF SMALL AND MEDIUM ENTERPRISES

4th Plenary Session

**SMEs' FISCAL AND ADMINISTRATIVE BURDEN
Argentina**

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Buenos Aires, Argentina

16-19 October, 2007

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1. Executive summary

At present, in Argentina, from the point of view of sales revenues, approximately 99% of taxpayers are SMEs.

SMEs are acknowledged for their capacity to become dynamic agents the economic growth due to their great flexibility and adaptability to changing contexts and, also, due to the fact that they are productive entities which create jobs.

However, when analyzing the sector's special features, it is necessary to take into account the differences among the economic, social and political structures in the countries of the region and in more developed countries.

Historically, Argentine SMEs faced structural problems, such as their size or production scale, their inability to cope with the complexities of the global context and difficult access to adequate financing and counseling, all of which hinder their growth and development.

Therefore, the policy for SMEs in Argentine tax system has evolved.

In 1998, a specific regime called "Simplified tax regime for small taxpayers" was created. It is a comprehensive and voluntary regime in which individuals pay a fix installment tax by categories, thus reducing administrative costs.

With regards to foreign trade, the main specific regimes currently in force for SMEs in our country are simplified systems for imports and exports and a border transit regime.

The increasing digitalization of procedures and, in general, the clear direction of AFIP towards enabling an electronic relationship with a focus on the Internet, fosters the reduction of compliance costs.

The new solutions offered by ICTs enabled us to reconsider the tax administration's mission, as it was no longer limited to the functions of collection and supervision of compliance with tax obligations, it was also without doubt complemented with a focus on information services and assistance to promote voluntary compliance.

AFIP considers that the improvement of the relationship between tax agency and taxpayer is a path to foster voluntary and timely compliance with SMEs obligations.

Therefore, standardizing the procedures, ensuring the usage of homogeneous criteria and the quality of the services offered, simplifying the mechanism to create specific or informative returns, allowing the creation and transmission of returns from the enterprises' computer systems, and redesigning regulations and procedures in the constant pursuit of simplification, are some of the steps that our administration will continue to follow in order to achieve a reduced administrative burden in the tax compliance of the reliable taxpayer.

2. Introduction

The aim of this document is to detail the policies and actions defined and implemented by the Argentine tax administration - i.e. Administración Federal de Ingresos Públicos (AFIP) - in order to achieve proper tax compliance by SMEs, avoiding an excessive administrative burden for this significant population of taxpayers. Moreover, management guidelines agreed during organizational planning stages - both those currently in force, and those planned for the future- are also discussed..

The analysis of small and medium taxpayers' fiscal burden raises some questions that must be faced but are not easy to solve pursuant to doctrine and empirical experience. As it often occurs, whenever contrasting interests arise, only temporary balances are achieved that are constantly altered by circumstances.

The analysis of the concept of fiscal burden naturally results in its division in two main components: the first one, taxation itself, arising from each country's tax law system. The second one, known as the "administrative cost" of that tax payment which comprises the total amount the taxpayer has to pay, besides the tax itself, to comply in due time and form with his/her tax obligations. In a broad sense, we may consider a third component of the fiscal burden consisting of the cost incurred by the State to control compliance - a cost that all in all is also paid by the taxpayer.

Although this document analyzes the three components, in relation to AFIP's specific mission as federal tax administration in the Republic of Argentina, it stresses the

description of the on-going policy to reduce taxpayers' compliance administrative costs in general, and specially those of the country's SMEs.

3. SMEs concept in Argentina

In our country, as in many other countries of the world, SMEs are acknowledged for their capacity to become dynamic agents for the economic growth due to their great flexibility and adaptability to changing contexts and, on the other hand, due to the fact that they are productive or service entities that create jobs in regions where employment has become one of the greatest challenges.

However, when analyzing the sector's special features, it is necessary to take into account the differences among the economic, social and political structures as well as the differences in the SMEs concept itself between the countries of the region and in more developed countries.

The European Union, for instance, defines SMEs as those who hire up to 250 employees and have an annual turnover lower than 50 million euros and/or a total annual balance up to 43 million euros. If we were to apply this definition to the Argentine economy, very few companies would classify as large enterprises. Likewise, it should be pointed out, that within an international economic context characterized by globalization and competition for markets access, enterprises that in Argentina may be defined as "large" enterprises, immediately change their classification in the global comparison.

In order to consider a background reference to understand the situation of Argentine micro, small and medium enterprises and then use that information to analyze them in the context of the country's current reality, it is necessary to refer to the specific definition applicable to this kind of enterprises published by the Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional del Ministerio de Economía y Producción (Office for the Small and Medium Enterprise and Regional Development, Ministry of Economy and Production) (Regulation No. 147/2006)¹ and apply it to the available data of our tax administration.

¹ "SECTION 1 - For the purposes of the provisions in Section 1, Title I of 25.300 Act, Enterprises shall be classified into Micro, Small and Medium according to the maximum total annual sales levels, excluding the Value Added Tax and the internal tax that might apply, expressed in Pesos (\$), detailed

In order to classify enterprises and to consider their inclusion in several promotion programs, the regulation takes into account their total annual sales' value –net of VAT - for a number of years as from the last balance or equivalent accounting information. Thus, when applying the rule to AFIP's taxpayers registry more than 90% of the total number of taxpayers would be provisionally classified as SMEs.

Another classification that AFIP generally considers is based on the number of hired staff, inferring from this basis types of employers with similar characteristics (Chart I).

Chart I – Number of employers by occupational segments

No. of employees	No. of employers	% of employers
1	165.372	36,4
2 - 10	221.706	48,8
11 - 50	52.035	11,5
51 - 1500	14.830	3,3
More than 1,500	251	0,0

Source AFIP

From the analysis of Chart I we can conclude that 36.4% of the country's enterprises have only one employee, whereas a bit more than 85% has up to 10 employees. Regarding their job creation capacity, a bit less than 97% of AFIP's employers' registry (more than 439,000 taxpayers) can be considered to be a SME due to the fact that they have a maximum of 50 employees. In Argentina, SMEs employ more than 70% of the existing employees.

in the following chart (*Author's note: in order better understand this document, the figures in the following chart have been converted to US dollars.*).

Total annual sales shall be understood as the average value of the last THREE (3) years from the last balance or equivalent accounting information duly documented and including same. In case of enterprises that have been operating for less time than required for the calculation established in the previous paragraph, the proportional average of annual sales since it started operating shall be considered."

Size / Sector	Farming	Industry and Mining	Trade	Services	Building
Micro-enterprise	US\$ 147,097	US\$ 403,226	US\$ 596,774	US\$ 150,806	US\$ 154,839
Small-enterprise	US\$ 980,645	US\$ 2,419,355	US\$ 3,580,645	US\$ 1,085,806	US\$ 967,742
Medium-enterprise	US\$ 5,883,871	US\$ 19,354,839	US\$ 28,645,161	US\$ 7,238,710	US\$ 7,741,935

In several public and private researches, both national and international, it is concluded that SMEs - even if they strongly participate in job creation - produce low-quality employment because they concentrate a significant portion of the unregistered employment (in Argentina only highly surpassed by household service). Low productivity and thus low competitiveness of most SMEs is the most frequent cause for the aforementioned employment precariousness.

Moreover, if SMEs' international classification standards, which consider an enterprise as "large" if it employs at least 500 employees, were taken into account, 99% of Argentine enterprises would be classified as SME.

Regarding the revenues generated by this type of taxpayers, when considering the number of current organizations in each of these groups, a disproportionate share regarding large enterprises can be noted (Chart II).

Chart II - Type of taxpayer according to sales

Size	Enterprises %	Total Sales %	Domestic Market Sales %	Exports %	Average annual sales US\$
Taxpayers under the Simplified Tax Regime	69,2	4,1	4,7	0,0	7.981
VAT Micro-enterprise	27,0	9,3	10,6	0,4	45.993
VAT Small-enterprise	3,1	14,4	16,2	1,8	627.763
VAT Medium-enterprise	0,6	19,9	21,6	8,3	4.547.937
VAT no SMEs	0,1	52,3	46,9	89,5	72.001.199

Source AFIP

After analyzing the information we can determine the collection behaviors by observing that most enterprises' total sales and, hence, most of the revenues come from a very small percentage of large enterprises. In short, from the point of view of sales revenues, at present in Argentina about 99% of taxpayers are SMEs.

Moreover, a comparative international analysis of the contribution of Argentine SMEs to the country's gross domestic product and total employment, places them within the normal ranges of most of the analyzed countries, with indexes not too different from those of, for instance, Germany, Italy and the United Kingdom (Chart III).

**Chart III - Comparative share of Argentine SMEs' contribution
in relation to SMEs' from OCDE countries**

COUNTRY	GDP %	Total employment %
Argentina	40	60
Spain	64	64
Italy	40	49
France	62	69
Germany	35	66
United Kingdom	30	67
US	48	54
Canada	57	60
Japan	57	74

Source World Bank

Regarding their location in Argentine territory, there is a broad geographical distribution of SMEs, that although in the industrial field means a greater concentration in the east-west central region and in the suburban area of Buenos Aires, turns out to be much more fragmented if the analysis includes services and trade activities.

Historically Argentine SMEs faced structural problems, such as their size or production scale, their inability to cope with the complexities of the global context and difficult access to adequate financing and counseling, all of which hinder their growth and development.

Additionally, and as a consequence of structural conditions and of the complex social and economic dynamics which the country has recently gone through, for some years SMEs faced the following obstacles to their development (according to most public and private specialists who study the issue):

- Historic difficulties for long-term financing: usually, their main sources of indebtedness are not traditional bank loans but partners, relatives and friends' contributions, suppliers' credits, postdated checks and current account advances.
- Underuse of instruments of public support: due to difficulties in increasing their promotion and scope, as well as problems for years now with coherence of different programs.
- Unequal competition: large enterprises' regular business practices and the indiscriminate opening of imports of certain goods may leave SMEs in a

competitive disadvantage Likewise, the evasion rates, still high, in the tax system intensify the effect of this kind of practices.

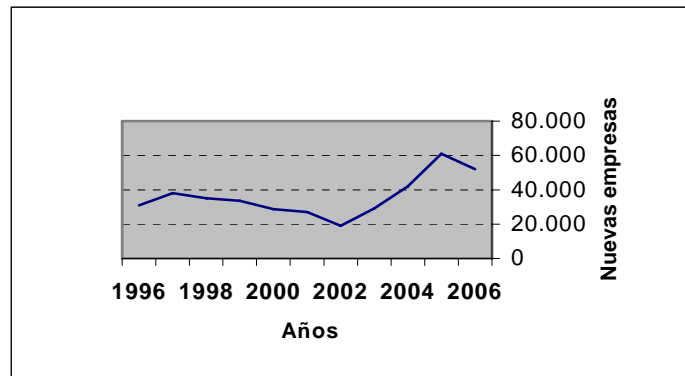
- Infrastructure, transportation and logistical problems: SMEs sometimes have obsolete technology and few mechanisms to guarantee quality.
- Insufficient training: it is difficult to find a highly trained work force in certain sectors. Furthermore, SMEs generally have limited resources to invest in staff training.
- The concurrence of several jurisdictions (federal, provincial, municipal) with authority over the fiscal control of the same taxpayer, with their pertinent procedures and requirements, in addition to the complexity of some procedures and response time of offices where these are filed, may sometimes hinder the creation or progress of new enterprises even causing - under certain circumstances - conditions that contribute to the decision to start up or keep the activities under an informal framework.

The aforementioned determining factors explain Argentine SMEs' situation, one which can be summarized through the following data of the sector's economic and social reality as historically recorded in Argentina:

- 36% of these enterprises have only one employee, while 85% has up to 10 employees.
- Less than 10% of SMEs have university trained staff, and only 19% of manufacturing enterprises have national or international certificates for the quality of their processes, products and/or services.
- Less than 10% of enterprises with less than 15 employees performed exports operations.
- 0.08% of SMEs' liabilities are bank credits.
- Less than 10% of SMEs access governmental promotion plans.
- 24% of manufacturing SMEs are less than a decade old.
- More than 60% of these enterprises do not have a management computer program.

However, the economic growth achieved by our country during the last four years has allowed the sector some economic relief. The number of new SMEs, for instance, grew significantly, more than 50,000 per year, as we can see in Chart I.

Chart I - Creation rate of new enterprises in Argentina



Source SEPyME

Moreover, there is a strong increase of formal employment in the SMEs sector, after a long period of stagnation. Between the second quarter of 2003 and the second quarter of 2006, the SME segment has increased by 48%, the employment of work force, almost twice the rate for large enterprises during the same period.

Similarly, it is worth noting that the chances of survival of these new enterprises is at present higher than in past times in our country. Furthermore, the governmental areas responsible for the formation of policies and programs for the sector conclude that the fields that have the greatest creation rates of new enterprises are software development, machinery and equipment manufacture, textile, food, wood and furniture sectors, tourism, and trade in general.

An additional sign of the sector's recent good performance is the growth of SMEs' participation in the country's exports and their role in the process of capital formation.

To sum up, as pointed out by Matías Kulfas² *“the new macroeconomic context has allowed the revival of many sectors with a high presence of SMEs, the strengthening of new successful sectors linked to activities of great dynamism... The prosperity stage that many regional economies experience also had its impact on micro, small and medium-producers. In short, it related to a stage characterized by a considerable expansion...”*

² Matías Kulfas, “Políticas de apoyo a las PyMEs y el desarrollo regional”, article published in the magazine “Desarrollo PYME”, No. 1, April 2007, Ministry of Economy, Argentina

4. Integration to the Argentine tax system

Worldwide, governments are applying several strategies to strengthen SMEs.

- The sector's internationalization by focusing on products with exportable demand.
- Creation of financing alternatives through new specific credit lines, rescheduling of bank credits, tax exemptions, and subsidies and deductions of income taxes for long-term investments.
- Regulation of labor markets.
- Clarity, opportunity and simplicity of the specific regulations applicable to SMEs.

In Argentina, normal compliance with tax obligations under the general regime means that an enterprise has to comply with several obligations such as registration, deregistration and modification in each tax and regime, as well as the creation and filing of tax returns together with the pertinent payment of each tax. Furthermore, it means meeting a series of requirements and conditions of different regimes and procedures, for example, information regimes, operation records, billing regimes, balances creation, compulsory consultation to validate operations and several withholding and revenue regimes.

Therefore, the policy for SMEs in our country's tax system has evolved. Since 1998 AFIP has a specific regime called "Simplified regime for small taxpayers", usually known as "Monotributo" (Simplified Tax Regime) which was specially created for this segment of taxpayers.

It is a comprehensive and voluntary regime in which individuals, who choose to pay a fix installment tax by categories, established based on incomes' objective standards, square meters, electric power consumption and highest unitary sale price. The taxes replaced by the fixed installment tax are value added tax, income tax, social security and health insurance regimes, and healthcare system.

The regime defines the small taxpayer as natural persons, de facto business organizations - with a maximum of three members - and co-operative companies' members which sell movable items, works, lease assets and/or render services, including farming activity within the aforementioned standards. Exhibit I encloses a detailed summary of its characteristics.

As part of the simplification objective of this regime, taxpayers are not obliged to observe the provisions set forth in order to register their operations or in order to periodically file tax returns, and they are also not affected by withholding or collection regimes, or account payment systems currently in force. Likewise, they are granted the possibility to choose freely a healthcare service provider.

Furthermore, it is considered that those taxpayers who use a banking means of payment (debit through credit cards, debit cards or bank accounts) and who pay the established fix installment in due time and form, shall be refunded with the equivalent to one installment per year as an incentive to keep such tax behavior.

The most important advantage of the Simplified Tax Regime for the administration lies in inducing a more regular behavior which is easier to control, aside from the possibility that it could contribute to an increase in tax collection.

A more thorough analysis also identifies an unwanted effect, contrary to the development, growth and formalization aims for this taxpayers segment, known as “fiscal dwarfism” - the irregular inclusion in this segment of companies under-reporting their income.

With regards to foreign exchange, the main specific regimes currently in force for SMEs in our country are simplified systems for imports and exports and the regime of border transit. Also in relation to import operations, and as a result of an initiative of the Ministry of Economy and Production area of SMEs’ policies³, a special regime was established for SMEs importing capital goods, which consists of the fractioned payment of VAT resulting from this kind of transaction.

With regards to exports, a special regime to facilitate this type of operations between SMEs and neighbor countries’ traders is also currently in force. With this regime, SMEs throughout the country can work without foreign trade auxiliaries, and therefore the payment corresponding to transactions performed with neighbor countries’ traders are made by Customs in a monthly basis.

The tax legal framework for the sector has other disadvantages considered by businessmen or analysts as the impossibility to deduce the fiscal credit invoiced by taxpayers

from the value added tax under the simplified regime or the lack of specific lines for SMEs related to the technology sector or start ups in the general instruments of economic policy (special regimes, exemptions, etc.) and a fiscal pressure considered by some analysts as excessive if compared with the profits expected during the first operation years of this kind of companies.

Furthermore, the presence of a negative circle produced by the high compliance costs and barriers to formalities is frequently mentioned. These barriers lead to the lack of bank financing, since these institutions require that their clients deliver real information on the business evolution and on the pertinent compliance with tax obligations and social security for credit risk qualification.

Regarding social security regimes, the tax policy aims at establishing different types of incentives or reductions in relation to the amounts paid, adapting them to the actual possibilities of small and medium enterprises.

For example, employers whose annual turnover is up to \$48 million (approximately US\$ 15.5 million) enjoy a reduction in what is known as employers' contributions⁴ (Chart IV).

Chart IV - Reduction of employers' contributions for SMEs

Concept	Employers' contributions % over the payroll	
	Employers with annual sales surpassing \$48 million	Employers with annual sales up to \$48 million
Retirement and pension integrated fund	12,71%	10,17%
Family benefits	5,56%	4,44%
Employment national fund	1,11%	0,89%
INSSJP (assistance to retired people)	1,62%	1,50%
Total	21%	17%

Source AFIP

Notwithstanding the validity of this incentive, the issue of whether reductions implies less benefits regarding social security benefits to neutralize tax effects ensuring SMEs'

³ Secretaría de Industria, Comercio y PyMEs (Office of Industry, Trade and SMEs).

⁴ Decreto N° 814/2001 (Decree No.814/2001) of the National Executive Power and complementary regulations, Decreto N° 1009/2001 (Decree No. 1009/2001) of the National Executive Power and AFIP's General Resolution No.1095/2001.

workers have access only to basic benefits, is an issue of constant national and international debate.

In our country, the opposite stance has been generally chosen in order to avoid what has been called "first or second-rate workers", reason why contribution reductions can be actually classified as employment fiscal subsidies.

Regarding employment promotion, the enterprise which has a payroll of up to eighty (80) workers, which is within maximum sales amounts already established in Regulation No. 147/2006 (SEPYME) and which produces a payroll net increment, shall be awarded with an additional reduction of its employers' contribution to social security equivalent to one third of current contributions for each new worker employed and for a period of twelve months. In case the employee hired for the new job was beneficiary of the social assistance program called "Jefes de hogar" (Person responsible for the family), partial exemption is raised to half of said contributions.

Likewise, with the aim of promoting SMEs' staff training the program "Fiscal credit for training" was created. Under this program the training expenses incurred by micro, small and medium enterprises are refunded. Training is performed in accordance with a specific project that the Subsecretaría de las Pequeñas y Medianas empresas y Desarrollo Regional (Office for Small and Medium Enterprises and Regional Development) (SEPYME) approves. The refund consists of the issuance and delivery of an endorsable fiscal credit certificate that may be applied to national taxes (VAT, incomes tax, internal taxes, etc.) by the enterprise. During the year 2005, 280 pre-approved training projects with a tax quota were implemented. For the year 2006, the official proposal included 410 similar projects.

In order to facilitate and reduce the cost of SMEs' access to the financial market "Reciprocal guarantee companies" (SGR) was created. Its core aim is to issue guarantees to its SMEs members. Through the participation in these companies' financial system, the aim is to achieve a reduction of SMEs' credit costs due to an improvement in their risk profile. In other words, for the financial system the main risk does not lie with the requesting SMEs' but with the reciprocal guarantee companies.

5. SMEs - tax administration relationship

Tax administrations' complexity and management difficulties naturally increase when the social and economic context where they operate does not meet the favorable conditions of stability or distribution of wealth to facilitate fiscal compliance.

The international context is increasingly complex in terms of the evolution and characteristics of the taxable basis subject to taxation. The impact of financial instruments' globalization, sophistication and complexity, the existence of tax havens and the increasing share of services and intangibles such as activities to dynamize growth, among other factors, have meant fiscal systems are faced with new demands and lawmakers with a dilemma between greater simplicity to facilitate compliance or greater complexity in order to achieve equity when establishing tax burdens.

Additionally, in several countries and especially in Latin America, there is a strongly uneven distribution of incomes. In the region, approximately 40% of the population lives in poor conditions and according to the ECLAC - Economic Commission for Latin America and the Caribbean - 16% of the total population are indigents or extremely poor people. In relation to taxes, there is enough evidence that a high percentage of the population has a very low tax capacity.

However, stemming from greater institutionalization and economic growth in Latin America, the region's tax administrations have become fundamental actors in corresponding economic and social development processes. Their job is to collect the pertinent income as set forth by regulations to ensure the State can operate, which positions them in an important place at the national economic and political scene and compels them to fully acknowledge that in order to achieve that key objective for any country, they must be naturally, pacifically and constantly related to most citizens and enterprises.

Therefore, perhaps one of the current greatest challenges for Latin American tax administrations is to become an efficient link between the society and the State to make the countries' tax sustainability possible. The tasks which they must perform to meet this challenge are complex. Not only do they need to collect tax revenues as required for the State's operation, but they must also - within the legal framework defined by laws - do it in such a way as to minimize costs for taxpayers in order to comply with their tax obligations which are additional to the legally determined tax.

Particularly considering Argentina's situation, it is necessary to go back to the most serious crisis in its national life by the end of the year 2001 and during 2002 that not only affected economic aspects but also strongly affected the institutional-political situation, deteriorated international relations and had a strong negative impact on the domestic social context. This serious situation weakened many actors, among which SMEs turned out to be one of the most affected.

At that time, the situation's analysis carried out by economic and political authorities concluded that the social, macroeconomic and political contexts were not appropriate to generate a fiscal reform to soften the effects of the crisis, reason why it was decided that the strategy to be developed would be to focus on improvements and solutions fostered by the tax administration. In this context, AFIP became one of the main actors to manage the crisis and to generate solutions to solve the problems the economic actors faced.

The challenges AFIP had to face were mainly two: to guarantee the State's revenues, which resources were rapidly eroding; and to adapt its working methodology in a social context characterized by a permissive attitude, with institutions' legitimization informality and weakness, in such a way as to fight systematically and intelligently against the deeply rooted idea of "non compliance".

5.1 Strategic framework for the relationship

The promotion of citizens and enterprises' compliance with tax obligations is one of the main working approaches adopted by most tax administrations. Moreover, AFIP's condition as unique agency makes it responsible for the administration of both, the national tax system and social security obligations, as well as foreign trade control.

This comprehensive responsibility makes it necessary for the tax administration to have a broad view of the context where it must carry out its duties, in order to answer to the particularities of the heterogeneities of individuals and enterprises with which it is related.

The agency model chosen facilitates this view, building a relationship with the taxpayer from a comprehensive point of view that includes the control of their taxes, their

foreign trade operations and their condition as employers within the framework of social security regimes.

Likewise, this organizational model strongly facilitated the execution of the main action steps defined when starting to overcome the aforementioned crisis, which are still strongly related to the activity of Argentine small SMEs:

- Ensure fiscal sustainability.
- Contribute to rebuild deteriorated relations with society.
- Make recovery of those deteriorated economic units easier.
- Facilitate the social inclusion of those who were not in the system.

5.2 Continual policy to reduce compliance costs

Bearing in mind the context in which SMEs operate, AFIP has defined a specific policy for this sector and has developed several action steps to contribute to the improvement of the conditions in which SMEs relate to the State, as far as tax administration is concerned.

AFIP's services have been developed by fostering simplicity, trying to understand and face specific problems, as well as national and international changing contexts. At the same time, the intensive use of information technology's advantages decisively impacted on the automation and generalization of controls over taxpayers, generating a significant increase in data accuracy and quality, allowing the identification and differentiation of compliant taxpayers and the removal of formerly usual information requests with the additional associated costs that these implied for taxpayers.

In the case of SMEs of irregular compliance - whether for their own decision or aproduct of a deficient administrative-accounting structure - the wider scope of this control routines has significantly increased the detection of changes or inconsistencies in filed tax returns and payments, generating the consequent administrative burden of going to AFIP's offices to file discharges or, a greater tax cost due to the application of fines originated in the non-compliance.

In order to reduce the effects of the improvement of AFIP's control schemes, from the tax administration we try to constantly value the natural role of the accounting professional or tax advisor as a natural or optional auxiliary of those taxpayers who develop a growing amount of commercial operations, but that still do not have an administrative structure to allow them to efficiently administer its relationship with the Treasury. Even if the need for a third party may seem contradictory to the aim is to reduce compliance costs due to the fees the taxpayer has to pay for the professional service, from a comprehensive point of view and comparing it with the previous model based on paper forms, the net benefit is significant.

The growing digitalization of procedures and, in general, the clear direction on the part of AFIP towards creating an electronic relationship with the taxpayers focused on the Internet, would be hindered in the current frame of Argentina's technological development, without the mediation of the accounting professional or tax advisor. The existing digital gap implies that a large amount of taxpayers resort to this mediator model, as it is necessary to have a minimum of technological and administrative infrastructure that many times small enterprises cannot afford

This model also allows the tax administration to have a better trained negotiator to understand the obligations derived from taxes and encumbrances. However, it is not the administration's aim to manage the relationship based on that philosophy, on the contrary, it is essential to try to develop procedures, regulations and services in the most amicable and simple way to allow the taxpayer with a normal educational level to comply adequately and personally with his/her obligations if desired.

6. Initiatives undertaken to reduce compliance burdens

The actions undertaken by AFIP satisfy two main objectives : i) to offer assistance and specific programs to establish and pay taxes easily, and ii) to reduce taxpayers' general burden to comply with tax obligations through different activities and alternatives.

Assistance and specific programs to establish and pay taxes easily

Actions are focused on helping those who show their willingness to comply with their tax obligations but who may have empirical, cultural or financial difficulties, by trying to facilitate the identification of their applicable taxes, the determination of payment amounts and

assistance at the time of paying, in such a way as to encourage them to remain in the formal system.

Regarding the payment of taxes:

- Sistema integrado de aplicaciones (SIAP): computer program that works as a platform for the programs developed by AFIP and which must be used by taxpayers to create their tax returns and determine their taxes, social security regime, and informative tax returns.
- “Su declaración” (Your tax returns): enables the creation and electronic transference of the social security regime tax returns for small employers who have up to five (5) employees, without using the regular application programs. The payroll with their pertinent “Clave única de identificación laboral” (CUIL) (Employee’s identification number) is automatically created from the data entered in the last filing by the taxpayer, together with the modifications regarding registration and deregistration of staff reported during the period through the procedure "Mi simplificación" (My simplification). Thus, the employer may do all necessary corrections regarding wages, health insurance data, family group, etc.

This important initiative reduced considerably the efforts that SMEs had to make in order to comply with their social security obligations.

- “Mi orientación” (My guidance): it is an electronic tool of voluntary use that does not require identification and that allows the user to simulate i) the registration of new individuals, indicating in which regime the individual shall be included in accordance with the data entered, ii) the re-categorization in the Simplified Regime, and iii) whether the individual needs to file his/her tax returns on personal goods and, if so, the amount payable.
- Web guide for procedures: it allows any person with the appropriate knowledge to create his/her own tax returns, following detailed instructions for each kind of possible filing.
- Frequently asked questions on regulations and application programs: it is a base created and updated regularly including queries posed by taxpayers.

- Specialized electronic library available in AFIP's site in Internet on a 24/7 basis.
- Handbooks developed to offer taxpayers specific information regarding issues of their interest, necessary to create and file their tax returns.

Regarding obligations' financing:

- Credit facilities plan "Hagamos un trato" (Let's make a deal): its aim is to favor the regularization of debts creating plans according the financial capacity of each taxpayer. This is a permanent initiative and comprises all kind of debts and situations without requiring seniority qualification of unpaid obligations. The request to join the plan is made through the Internet without the participation of AFIP officers, and includes an option for running mock trials to assess the most adequate plan for the taxpayer.

One of the main requirements is that the taxpayer authorizes AFIP to order periodical bank debits of the plan's installments, whether from the taxpayer's existing account or from a third party's account or from a free fiscal savings account that AFIP opens in a bank. The installments have a second due date 10 days after its maturity and the interest rate is variable according to the type and origin of the debt.

This regime' distinctive characteristic is that it establishes a 30% refund of paid interests to those taxpayers who have regularly complied with the payment of their plan's installments.

- "Mis facilidades" (Credit terms): It is a special regime of partial periodic payments that allows taxpayers to regularize the payment of their tax obligations, of social security resources and other taxes that foreign trade operations levy, due for payment up to the 31st day of August 2005 inclusive.
- Incentives for reliable taxpayers under the simplified tax regime: consists in the annual refund of the tax component corresponding to one fix installment.

Reduction of the general burden of compliance with taxpayers' tax obligations

Regarding the simplicity:

- Tax returns' electronic filing: Small and medium taxpayers may file their tax returns either through AFIP's web site or in banks included in AFIP's network.
- Tax obligations' payment through home banking: This service uses the communication networks that banks involved in the collection of taxes on behalf of AFIP (at present 43 entities).
- Generation of the electronic payment bill (VEP) and bank debit: in order to make a payment through the Internet, the taxpayer needs to enter AFIP's web site, the payment data, and select the network and bank he/she will use for the transaction, to generate the pertinent electronic payment bill. The created bill remains available online in the bank chosen by the taxpayer so that the debit can be paid from the from the account.

It is worth mentioning that this solution has helped to minimize mistakes in the allocation of payments to taxpayers' debts, avoiding troubles, re-processing and fines as a consequence of the wrong allocation performed by agents or employees when paying at the bank's windows.

- Extended business hours: the date of the payments made through home banking is considered as in practice, that is to say, the business hours to operate in the system so that tax payments are registered the same day of the transaction are the same business hours the banks allow to make their own transactions. For instance, some banks operate Mondays through Sundays from 8 a.m. to 10 p.m.
- Tax account system: this new computer system currently in force to register and control taxpayers' tax obligations is a milestone in the history of the Argentine tax administration, since it allows taxpayers to access AFIP's records regarding their compliance with obligations through the Internet by entering their fiscal password. For example, enterprises will be able to verify recorded tax return and payments, credited withholdings and payments and the balances of the several tax accounts, to perform transactions (filings, payments, compensations, adjustments, etc.) and know at any time his/her tax debt or credit with the tax agency.

- Tax registry: it allows to make electronic queries and to modify data, as well as to deregister from taxes and regimes.
- Taxpayers' self-categorization under the Simplified Tax Regime: simplified scheme through the Internet (it allows the registration, re-categorization and data modification).
- Taxpayers under the Simplified Tax Regime and self-employed workers' current accounts: it allows self-employed workers to make transactions through the Web and: i) pay debts that they could possibly have with the pertinent regimes; ii) re-record payments mistakenly made for already paid periods; and iii) access the electronic payment bill to pay the debt.
- "Mis retenciones" (My withholdings): it is a new system that allows taxpayers to control the information registered in the AFIP by third parties regarding withholdings or collections made on their behalf.
- Incentive for reliable fiscal behavior: AFIP distinguishes taxpayers based on their reliability and tax risk. A "reliable taxpayer", therefore, is considered to be one who has a reliable fiscal behavior, taking into account his/her:
 - Compliance with formalities in due time and form.
 - Correct declaration of domicile.
 - The verification of certain technical indicators (net rent/sales, fiscal debit/fiscal credit, etc.).
 - Result of fiscal audits practiced.

A taxpayer classified as reliable will have to meet fewer requirements to perform certain procedures, as for example, to obtain certain tax benefits, to approve the creation of VAT fiscal credits or to accept the estimates of expenses in income tax. The incorporation of deductions and/or different rates for reliable taxpayers is being thoroughly analyzed.

- "Mis operaciones aduaneras" (My customs operations): through this electronic transaction, users of customs services may perform, from any computer connected to the Internet, different online searches regarding their customs operations recorded in the Sistema Informático María (SIM) (María Computer System). Thus, importers, exporters and customs officers can monitor their returns and procedures and have timely information that allow them to better

guarantee their logistic and administrative activities, sometimes achieving a reduction in their distribution and storage expenses.

- Other dynamic and assisted digital procedures: No tax withholding certificate, VAT's refund for exports operations, fiscal aspects of real state transference and digital signature for certified copies.

Regarding a closer contact with SMEs:

- Greater coverage policies: due to the already mentioned taxpayers' wide geographic distribution, in order to achieve a closer contact, AFIP had to open Service Centers and develop a great number of online services accessible through a fiscal password to increase the services traditionally rendered through its offices - regional offices, agencies, districts, customs and more than 170 customs offices throughout the country.

These developments have created gaps that gave rise to a new kind of demand for customer service and customized assistance. In view of these circumstances, the new Service Centers created and the assistance units strategically distributed try to satisfy the demand for face-to-face assistance and to assist taxpayers in the self-management of their procedures and in their search for advice.

- Functional re-design of face-to-face assistance areas: it is a project that will bring about new improvements in the internal distribution of each office to better answer to changes and to facilitate taxpayers' assistance for example, by improving their access conditions, making computers with access to the institutional site available, etc.
- Telephonic Information Center (Call Center): through the telephone, not only can taxpayers ask for advice, but they can also perform certain procedures (for instance, obtaining the "Early registration password", the no tax withholding certificate on the assignment of real state, registration of the "fiscal password" necessary to perform any kind of digital procedure with AFIP).
- Information and advertising campaigns: they are the main tool used by tax administrations to massively communicate subjects of special interest and significance to taxpayers.

- Electronic tax domicile: It is a computer application implemented through a functionality called “e-office” that operates through AFIP’s Web site. Taxpayers that choose this service may be certain about the notifications issued by AFIP, avoiding potential inconveniences resulting from difficulties in traditional communication channels.

Additionally, the service offers a virtual postal office box to taxpayers, where they receive all the information regarding AFIP (leaflets, e-mail warnings and notices regarding news, files download, etc.).

- Taxpayer advisor’s office: it is a continual program to manage complaints and suggestions, with specialized staff who receives and answers them formally and personally, either in person or through the Telephonic Information Center (CIT) or through the existing application in AFIP’s institutional Web site. In addition to solving a particular situation put forward by each taxpayer, the program intends to identify and find a rapid solution to the cause of the different failures and systemic high-impact non-conformance detected as a consequence of the structural analysis of the events managed.

Regarding the increase in competitiveness:

- Electronic bill: AFIP has recently regulated and implemented a procedure by means of which, in certain cases, fiscal validity is attached to electronically issued receipts that support business operations between enterprises.
- Electronic policy: another service which meant an improvement in procedures, adding transparency and safety to management, both for the user and for AFIP, was the addition of the service of guarantees required by the administration to ensure the compliance with certain operations, through a new scheme of electronic policy.

The system is available on a 24/7 basis for all previously entitled guarantors.

- B2G: this service makes taxpayers’ compliance with several obligations easier, transferring information that is required directly from its computer server, without using taxpayers’ or AFIP’s human resources (for example, application in port terminals).

- Other initiatives related to facilitating foreign trade operations such as the “safe containers initiative”, warning records to prevent forgery and integrated border crossing.

Regarding the simplification of fiscal control schemes:

- Desktop audits: based on specific information controls; which require a more reduced administrative burden on the part of the selected taxpayer.
- Preventive controls: rapid interventions aimed at preserving the controlling environment.
- Non intrusive controls applied to foreign trade operations.
- Satellite monitoring of goods and transportation means.
- Inconsistencies preventive reporting: postal pieces are sent to certain groups of taxpayers that, due to their characteristics, require special attention, either to remind them of specific aspects regarding their tax situation or to prevent risk situations.

Regarding the narrowing of the digital gap

- Miconexión@FIP: agreements with telecommunication companies to offer free dial up connection through the Internet to AFIP’s site and other related sites, with reduced telephonic fees.

It offers a geographic coverage of more than 98% of the country and enables total access to AFIP’s different services and electronic banking platforms used for the payment of taxes.

- Agreements with telephone booths and Internet access points to offer assistance to taxpayers regarding AFIP’s digital services. Includes staff training and it comprises a wide territorial network.
- * afip and @fipwap: which enable access through cell phones to services such as filing complaints and suggestions, requiring fiscal passwords, queries

regarding registration data, filing forms, accessing application programs, news, etc.

7. Intergovernmental cooperation experiences

Due to its federal role and its importance and leadership as an Argentine public organization, AFIP has developed, with different degrees of progress and success, several joint initiatives with national, provincial or municipal public entities in order to facilitate, as much as possible, taxpayers operations, in particular SME operations.

Within this working line, the greatest achievement has been the employers and employees' registration simplification procedure called "My simplification", a consequence of a joint project between the Ministerio de Trabajo, Empleo y Seguridad Social (Ministry of Labor, Employment and Social Security) and AFIP. This program, which implied a radical change regarding labor registration, meant that in only one electronic procedure employers were able to register his/her employees before the different organizations with jurisdiction on social security regimes control - Superintendencia de Servicios de Salud (Health Services Superintendent's Office), Superintendencia de Riesgos del Trabajo (Work Risks Superintendent's Office), Superintendencia de Administradores de Fondos de Jubilaciones y Pensiones (Retirement and Pension Funds' Administrators Superintendent's Office), Administración Nacional de la Seguridad Social (National Administration of Social Security), AFIP itself and the aforementioned Ministry – thus avoiding repetition of the same information.

Thus, a tool which allows employees' registration in one unique procedure for all labor and social security purposes is created; it continuously builds and maintains in real time the "Register of employers and employees", with their family groups included. The system has processed more than 4 million labor registrations, 3 million deregistrations and approximately 4 million data modifications of employees and their family group since August 2006 when it was implemented.

Likewise, and also regarding taxpayers facilitation of compliance, the project called "Ventanilla única" (Unique office) is in force and in continuous development. This initiative aims to allow the taxpayer to solve all administrative procedures and payment to the national government in one point of virtual contact. In this regard, AFIP's role is of

fundamental importance, assuming the responsibility to extend and make the network available to the national civil service, in such a way as to offer this service to all citizens throughout the country.

Another important project has been developed jointly with the Inspección General de Justicia (IGJ) (Artificial Persons Control Bureau) which main aim is to achieve a greater simplicity and reliability in all procedures related to the creation, modification or deregistration of business partnerships. It is basically a transaction performed through the Internet that allows the procedures to create a legal entity and to register it in the tax administration to be unified.

AFIP grants at present special importance to this service due to the fact that data which enable the analysis of the tax behavior of the members of the partnership is not updated and is not legally and safely available before their registration in the tax registry.

Through this service AFIP intends to establish a unified basis of legal entities together with subnational organizations with authority on the matter.

8. The impact of information technology

During the last 15 years, information and communication technologies (ICTs) have enabled the creation of a new group of solutions for the tax administration, resulting in possibilities that not long ago would be considered as science fiction. Computers, remote working stations' availability, communication networks and, mainly the Internet, provided for sharing information between different enterprises, places, offices and institutions more easily, offering a new range of products and resulting in a deep change in the relationship tax agency-taxpayer.

One of the aspects that negatively affected the voluntary compliance with obligations was associated with the difficulties taxpayers had to overcome or face in order to comply with their obligations. For instance, self-return of taxes was made by forms which needed to be filled in by hand with instructions which were most often confusing. Sometimes, to submit his tax returns and pay taxes the taxpayer had to wait hours. This situation became worse since the value added tax became massive and contributions to the social security regime became personal.

In order to face the aforementioned situation, it was necessary to resort to the new solutions which ICTs offered that allowed reformation of the tax administration's mission, since it was no longer limited, in practice, to the functions of the collection and supervision of compliance with tax obligations, but was definitely complemented with a focus on information services and taxpayer assistance to promote the voluntary compliance.

In Argentina, AFIP is one of the largest and more complex governmental institutions, is pioneer in the continuous incorporation of new solutions ICTs offered on a daily basis. In 1994, for instance, AFIP delivered for free to the 250,000 main taxpayers application programs for the creation of tax returns through personal computers (PCs) and printed forms with optical character recognition (OCR) for the rest, thereby minimizing the number of estimate mistakes, data omission, and mistakes in the transcription of the information. This ensured quality, and also facilitated the creation of returns and significantly reduced the number of complaints from the tax administration, because for the first time in its history, the data of all returns was entered with an acceptable quality level.

In 1998, AFIP removed paper format for tax returns, enabling the bank network and other electronic devices to read returns with magnetic means, and at present it massively and electronically receives millions of returns from its own site in the Internet. The use of the Net as a means for the development of tax administration functions has grown exponentially both for the enterprise as well as internally with an Intranet that interconnects 289 offices and more than 20,000 users geographically distributed throughout the country.

AFIP's use of the Intranet dates from mid 1996. At first, its aim was to promote the use of the Net, the use of Web tools and of the advantages of e-mails to make information available for taxpayers. As years went by, the increased use of Internet has enabled the development of a great number of applications and functionalities, many of which are interactive. This new possibilities in many cases also came with the re-design of AFIP's internal procedures, looking forward to improve its effectiveness.

In order to be able to correctly identify the taxpayer or his/her representative when electronically interacting with the tax administration through the Internet, AFIP has developed and manages an authentication system under the modality single sign-on, called "fiscal password" and used to grant or restrict access to the several functionalities and to protect taxpayers' and the administration's data from possible fraud or inappropriate access.

Consequently, to be able to use the services through the Web site, in addition to an identification number (CUIT/CUIL/CDI), the user is required an authentication element - password - called “fiscal password” granted by users’ registration, authentication and authorization system of the aforementioned service.

The ongoing incorporation of new and different Web services, and the future growth planned for their use - almost excluding manual procedures - determined the need to extend and adapt the “fiscal password” system, not only because it is used to file tax returns and make payments, but also because through these services, natural or artificial persons are enabled to acquire rights and obligations and tax duties of any kind in relation to customs, tax and/or social security. The system also considers the possibility of the real user being the interested person or any other user by him appointed, through the system of “relationship management”.

To sum up, to adopt all the possibilities offered by ICTs results in the following effects and benefits for AFIP and for the taxpayers:

- Redefinition of the tax administration’s mission
- Control with a focus on service
- Information and assistance to promote voluntary compliance
- Possibility to offer a new scope of electronic solutions
- Large quantities of taxpayers’ effective management capability
- Internal procedures redesign
- Information quality and timing assurance
- Improvement in productivity

As a consequence, the following results -among others- were produced in Argentine tax administration:

- 100% of tax and social security returns are electronic
- 80% are submitted via Internet

- 81% of the tax and social security collection is performed through the Internet and is registered in real time
- Electronic services operate on a 24/7 basis
- 6.5 million fiscal passwords were granted
- US\$ 41,000 million in payments made through the Internet (year 2006)
- 21 million tax returns filed through the Internet (year 2006)
- 10 million registration certificates issued
- A great number of existing data in AFIP's computer databases are accessible and modifiable through the Internet by the taxpayer
- Controlling activities are more efficient since they were centralized in stable and reliable systems that update databases - in most cases - in real time
- There is a significant improvement in the relationship with the taxpayer as a consequence of providing electronic services on a 24/7 basis, reducing significantly the need to attend offices or banks
- 100% of the new systems are developed exclusively to be used through the Internet and with real time integration with institutional databases

In this way, AFIP has linked its control and service functions to the use of better technology, thus allowing a massive control and a wide variety of Web services for all taxpayers, directly as well as through accountants and tax advisors, considering that availability for SMEs without an adequate administrative structure is reduced. New procedures, many of which are thoroughly described in previous sections, have brought AFIP and taxpayers closer, strengthening the "virtual office" program.

After all, it has to do with a real revolution that opened the administration to the citizens and offered them simple and convenient methods to perform searches, procedures and transactions. This revolution, not only guaranteed the quality and timing of the information used by AFIP's control systems but also improved the general productivity and was crucial to achieve essential and sustained improvements in the voluntary compliance with obligations on the part of taxpayers.

Looking ahead into the future, the challenge lies in the people responsible for the different tasks in the tax administration (operations, services, collection, supervision, etc.), and those who develop an information technology system, taking the work done so far to the next level, making their contribution even more valuable by improving the different management processes, that will, no doubt, result in a greater reduction of taxpayers' administrative burden.

9. Conclusions

The Argentine tax administration, during the last few years has implemented a general policy of reduction of the administrative burden for tax compliance, with a special focus on SMEs.

A general overview of the different actions and initiatives detailed in the previous sections allows us to sum up the main lines of this policy as follows:

- Information which belongs to the taxpayer and which is managed by the tax administration is made available to him/her
- Simplification and follow up of their own procedures and other organizations' procedures
- Speed and uniformity in the resolution of procedures
- Availability to put queries through all service channels, with focus on the institutional Web site
- Interactive Internet-based systems to carry out procedures
- Transactions' safety
- Opening of service centers and new agencies
- Greater integration of tax, customs and social security procedures
- Administration transparency
- Facilitation of the exercise of rights on the part of taxpayers
- Reduction of the burden of proof in procedures

From the analysis of the Argentine experience, certain guidelines may be suggested to be considered when reviewing the issue of concern for us today, that is to say, the study of the reduction of the taxpayers' administrative burden.

Tax administration can and must participate in the design of the tax system applicable to SMEs due to its thorough knowledge of those taxpaying companies.

AFIP considers that the improvement of the relationship between tax agency and taxpayer is a path to foster voluntary and timely compliance with SMEs obligations.

The achievement of a harmonious balance in this relationship requires a constant critical attitude in relation to the review and assessment of the service provided.

The systematic use of information and communication solutions (ICTs) enables the reduction of the compliance administrative burden.

We must face the challenge of studying the peculiarities of each category of taxpayers, analyzing their needs and developing effective means to be able to know in due time what are the necessary changes to be introduced in the provision of services.

Therefore, standardizing the procedures, ensuring the usage of homogeneous criteria and the quality of services offered, simplifying the mechanism to create specific or informative returns, allowing the creation and transmission of returns from the enterprises' computer systems, further using risk management matrixes to reduce unnecessary audits and data requirements and redesigning regulations and procedures in the constant pursue for simplification are some of the steps that our administration will follow to achieve a reduced administrative burden in the tax compliance of the reliable taxpayer.

Exhibit I

SIMPLIFIED TAX REGIME FOR SMALL TAXPAYERS - MONOTRIBUTO

Facilities and/or services provision

Category	Gross revenue	Physical size			Monthly installment	Self-employed worker contribution/ health insurance (1)	Total
		Surface affected	Electric power annual consumption				
A	Up to \$ 12,000	Up to 20 sqm	Up to 2,000 kw	\$ 33	\$ 59,44	\$ 92,44	
B	Up to \$ 24,000	Up to 30 sqm	Up to 3,300 kw	\$ 39	\$ 59,44	\$ 98,44	
C	Up to \$ 36,000	Up to 45 sqm	Up to 5,000 kw	\$ 75	\$ 59,44	\$ 134,44	
D	Up to \$ 48,000	Up to 60 sqm	Up to 6,700 kw	\$ 128	\$ 59,44	\$ 187,44	
E	Up to \$ 72,000	Up to 85 sqm	Up to 10,000 kw	\$ 210	\$ 59,44	\$ 269,44	

Other activities

Category	Gross revenue	Physical size			Unitary price (*)	Monthly installment	Self-employed worker contribution/ health insurance (1)	Total
		Surface affected	Electric power annual consumption					
F(2)	Up to \$ 12,000 (2)	Up to 20 sqm	Up to 2,000 kw	\$ 870	\$ 33(2)	\$ 59,44	\$ 92,44	
G	Up to \$ 24,000	Up to 30 sqm	Up to 3,300 kw	\$ 870	\$ 39	\$ 59,44	\$ 98,44	
H	Up to \$ 36,000	Up to 45 sqm	Up to 5,000 kw	\$ 870	\$ 75	\$ 59,44	\$ 134,44	
I	Up to \$ 48,000	Up to 60 sqm	Up to 6,700 kw	\$ 870	\$ 118	\$ 59,44	\$ 177,44	
J	Up to \$ 72,000	Up to 85 sqm	Up to 10,000 kw	\$ 870	\$ 194	\$ 59,44	\$ 253,44	
K	Up to \$ 96,000	Up to 110 sqm	Up to 13,000 kw	\$ 870	\$ 310	\$ 59,44	\$ 369,44	
L	Up to \$ 120,000	Up to 150 sqm	Up to 16,500 kw	\$ 870	\$ 405	\$ 59,44	\$ 464,44	
M	Up to \$ 144,000	Up to 200 sqm	Up to 20,000 kw	\$ 870	\$ 505	\$ 59,44	\$ 564,44	

[*:] Only in cases of sale of movable assets.

[1:] Includes \$35 for SIJP, \$24,44 for health insurance (only for the bearer)

If the worker is registered in the private retirement regime, he/she shall add \$33

If the worker belongs to the public retirement system he/she will be able to choose to enjoy from the additional service due to permanency adding \$33

[2:] "Farming activity with annual incomes of up to \$12,000". They may register in "F-main activity" category, being thus compelled to enter only fix monthly amounts for the social security